2006 STATE TRANSPORTATION IMPROVEMENT PROGRAM FUND ESTIMATE ASSUMPTIONS

Adopted by the California Transportation Commission
On May 26, 2005

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TABLE OF CONTENTS

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2006 STATE TRANSPORTATION IMPROVEMENT PROGRAM FUND ESTIMATE ASSUMPTIONS

Preface

Biennially, pursuant to Section 14524 of the Government Code, the California Department of Transportation (Department), at the direction of the California Transportation Commission (Commission) develops the State Transportation Improvement Program (STIP) Fund Estimate (FE). The purpose of the FE is to provide an estimate of the federal and State funds expected to be available for programming in the subsequent STIP, and to provide a plan to manage these funds over the subsequent five years.

The 2006 FE provides five-year estimates for the State Highway Account (SHA) (which includes federal resources), the Public Transportation Account (PTA), the Transportation Investment Fund (TIF), and the Transportation Deferred Investment Fund (TDIF). The 2006 FE will cover the period from 2006-07 through 2010-11, with the 2005-06 year included as the base year.

The Department is generally required to present a proposed FE by July 15 and the Commission to adopt a FE by August 15 of each odd numbered year. However, if the Commission finds that legislation pending before Congress or the Legislature (including the Budget Act) may have a significant impact on the FE, statutes allow the Commission to postpone adoption. Statutes also allow the Commission to amend the FE prior to March 1 of each even-numbered year to account for unexpected revenue changes or other unforeseen circumstances.

In the development of every FE, there are a number of assumptions that must be made that affect the projections of the various categories of revenues and expenditures for each account. These assumptions must be based on the best information available at the time, since the five-year horizon of the FE will have a lasting impact on the State's transportation system.

This document presents the 2006 FE assumptions that were adopted by the Commission on May 26, 2005.

Background

In the past, the SHA was the primary funding source for the State's highway system. Revenues from gasoline taxes and weight fees were constitutionally protected under Article XIX of the California Constitution. The SHA and federal resources provided funding for the State's State Highway Operation and Protection Program (SHOPP) and STIP programs. However, after the passage of the Traffic Congestion Relief Act of 2000 (TCRA), the revenue picture for transportation has become difficult to predict.

The purpose of the TCRA was to commit major resources to 141 designated transportation projects under the Traffic Congestion Relief Program (TCRP), in addition to providing funding for the STIP, local streets and roads, and the PTA. The designated TCRP projects were to be funded through the Traffic Congestion Relief Fund (TCRF). The TCRA also created the TIF to receive the General Fund transfers of gasoline sales taxes and to distribute these funds to TRCA commitments. With the creation of TIF, a bridge was created between the General Fund and transportation by making transportation commitments tied to General Fund revenues. Budgetary problems were now able to impact transportation funding through the suspension of General Fund transfers to TIF, setting up the first step of a series of revenue problems for transportation funding.

In 2001-02, the State was faced with a growing budget deficit and looked to transportation funds to help fill the budget shortfall. The Transportation Refinancing Plan, Assembly Bill (AB) 438 (Chapter 113, Statutes of 2001), authorized a series of actions that had a detrimental impact on transportation funding:

- Delayed the implementation of the TIF for two years.
- Authorized the General Fund to borrow money from the TCRF.
- Loaned $350 million from the SHA for local roads.
- Loaned $275 million from PTA and $180 million from SHA to the TCRF to back fill funding for the TCRP.

As the budget problems continued, General Fund transfers to TIF were partially, then completely suspended, with repayments scheduled through the TDIF in 2007-08 and 2008-09. Spillover revenues to the PTA were essentially eliminated, with only two quarterly transfers occurring over a three year period.

As of May 2005, the outstanding balance of loans to the SHA, PTA, TDIF, and TCRF are as follows.

- $1.2 billion due to the TCRF from the General Fund.
- $465 million ($443 million + $22 million interest from the General Fund) due to the SHA from the TCRF.
- $275 million due to the PTA from the TCRF.
- $2.1 billion due to the TDIF from the General Fund for 2003-04 and 2004-05 TIF suspensions, consisting of:
  - $1.1 billion to TCRF
  - $418 million to Local Streets and Roads
  - $209 million to PTA (half to Cities and Counties)
  - $418 million for STIP

Although the FE is required to base revenue assumptions on existing law, following the law does not provide any certainty on whether some revenues will actually be realized. Existing law authorizes the General Fund transfer to TIF, but also allows the Legislature to suspend the transfer with a two-thirds vote. Existing law also authorizes the issuance of bonds secured by Tribal Gaming revenues to pay off a portion of the TCRF loan to the General Fund, but legal challenges have delayed the bonds. Finally, TIF suspensions and the elimination of spillover revenues have become the rule rather than the exception over the last three years.

To address the uncertainty of the major revenue assumptions for TCRF loan repayments, TIF transfers, TDIF repayments, and PTA spillover revenues, the Commission has directed the Department to prepare a two-tiered FE. Tier 1 would represent a conservative revenue outlook assuming that none of the revenue identified above will be realized in the FE. This would result in very minimal programming, if not deprogramming, of existing projects. Tier 2 would be based on existing law that assumes all of the revenue identified above will be realized as listed in statute.

Tier Issues	Tier 1 Options	Tier 2 Options (Existing Law)
TCRF Loan Repayment	No Tribal Gaming bonds are issued and no loan repayments made during the Fund Estimate period.	Tribal Gaming bonds are issued and loans are paid in 2005-06.
TIF Transfer	No TIF transfers occur during the Fund Estimate period.	TIF transfer occurs in 2006-07 and continues for remainder of the Fund Estimate period.
TDIF Repayments	No TDIF repayments made during the Fund Estimate period.	2003-04 and 2004-05 TIF suspensions are repaid to the TDIF in June 2009 and June 2008.
PTA Spillover Revenues	No spillover revenues are transferred during the Fund Estimate period.	Spillover revenue is transferred in 2006-07 and continues for remainder of the Fund Estimate period.

Other major assumptions and issues for the 2006 FE include weight fee revenues, what level of federal Obligation Authority (OA) to assume if a Federal Transportation Act is not passed, how any new funding for the Toll Bridge Seismic Retrofit Program (TBSRP) will affect the STIP, and the escalation rate for construction costs.

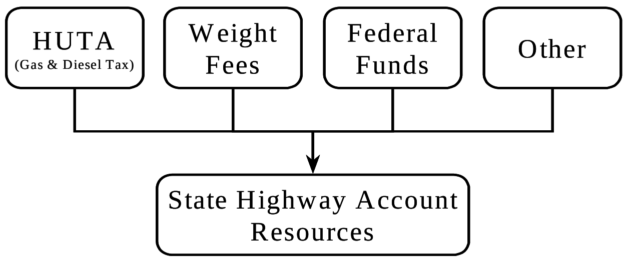
The remainder of this document will present these and other FE assumptions by fund, beginning with the SHA followed by the PTA, TIF, and TDIF.

State Highway Account

Revenue Assumptions

STATE HIGHWAY ACCOUNT (SHA)

The SHA is one of the main funding sources for the State's highway transportation program. The three major sources of funds for the SHA are fuel excise taxes transferred from the Highway Users Tax Account (HUTA), motor vehicle weight fees, and reimbursements from the Federal Highway Trust Fund (FHTF) for federal-aid highway projects. Federal funds received by the Department come from federal fuel excise taxes that are deposited in the FHTF. The taxes are apportioned and allocated back to California through the Federal Transportation Act (Act) and the federal budget.



STATE HIGHWAY ACCOUNT ASSUMPTIONS

Fund Estimate Item: Beginning Cash Balance (Item SHA 1)

The beginning cash balance for the SHA is based on the prior fiscal year ending cash balance per the State Controller's Office (SCO), plus the SCO's ending balance of the Transportation Revolving Account (TRA) adjusted for balances of other funds that provide cash advance to the TRA. The 2004 FE included a beginning cash balance of $293 million as of June 30, 2003. At the end of June 30, 2005, the adjusted SHA cash balance is forecast to be $660 million.

SHA 1. The actual adjusted cash balance as of June 30, 2005 will be the beginning balance of the 2006 FE.

Fund Estimate Item: Operating Cash Balance (Item SHA 2)

The SHA needs to maintain at least a minimum level of operating cash that is sufficient to meet monthly operating commitments, daily fluctuations, and the revenue and expenditure cycles that occur during the year. The SHA must also be able to maintain a sufficient cash to cover monthly expenditures during delays in adopting the State and federal budgets. The 2004 FE assumed a minimum level of operating cash of $330 million for the FE period.

SHA 2. Based on a cash analysis of the monthly SHA receipts less expenditures from July 2003 through June 2004, a minimum level of operating cash of $340 million would be sufficient to cover 95 percent of the monthly volatility in the SHA.

Fund Estimate Item: SHA State Revenues (Items SHA 3-4)

For the purpose of estimating revenues, Government Code Section 14525(c) states that the Commission shall assume there will be no change in existing state and federal statutes.

Fuel Excise Taxes: These revenues include the State excise taxes charged on a per gallon basis for gasoline, diesel, liquefied petroleum gas, natural gas, ethanol, and methanol. This source is a transfer from the HUTA and is authorized under S&H Code Sections 2104.1, 2107.6, and 2108. Revenues from fuel excise taxes in the 2004 FE were estimated to increase at 2.3 percent annually over the FE period, resulting in $11.1 billion in revenues.

SHA 3. Fuel excise tax revenues are estimated to grow at an average annual rate of 2.2 percent for the five year FE period.

Forecast Fuel Excise Tax Revenues
($ million)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
2004 FE	$2,116	$2,164	$2,214	$2,265	$2,317		
2006 FE			$2,195	$2,240	$2,283	$2,327	$2,371

Weight Fees: These revenues are the fees charged to commercial vehicles based on vehicle weight, also known as Motor Vehicle Registrations. This source is authorized under Vehicle Code Section 9400. Weight Fee revenues in the 2004 FE were estimated to increase at 1.0 percent annually over the FE period, resulting in $4.1 billion in revenues.

SHA 4. Weight Fee revenues in the 2006 FE are estimated to increase at approximately 2.5 percent annually over the FE period. This is consistent with the weight fee collection history prior to Senate Bill (SB) 2084 and SB 1055, and the growth pattern observed after the full fix was implemented.

Forecast Weight Fee Revenues
($ million)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
2004 FE	$799	$825	$833	$842	$850		
2006 FE			$894	$922	$949	$976	$1,004

Other State Revenues: Other SHA revenues include interest received from the Surplus Money Investment Fund (SMIF) and revenues from Other Regulatory Licenses and Permits. In the 2004 FE, revenues from SMIF and Other Regulatory Licenses and Permits were $95 million and $51 million, respectively, over the FE period. The SMIF income in the 2006 FE will be calculated based on the projected year end cash balances of the SHA and the SMIF as of June 30, 2005. Revenues from Other Regulatory Licenses and Permits are estimated to increase at an average annual rate of 2.4 percent.

Fund Estimate Item: Transfers (Items SHA 5-6)

Under the S&H Code, the SHA makes routine transfers to the PTA for planning and miscellaneous revenues not subject to Article XIX of the California Constitution. The SHA also receives a transfer from the Motor Vehicle Account (MVA) under the Vehicle Code. In 2001, the Legislature authorized a transfer from the SHA to the Toll Bridge Seismic Retrofit Account (TBSRA) under AB 1171 (Chapter 907, Statutes of 2001).

Background and methodology:

- The SHA transfer to PTA for planning pursuant to S&H Code Section 194 is determined by formula and is based on PTA State Operations expenditures in the State budget and escalated by the BEA price deflator. This transfer in the 2004 FE totaled $112 million for the FE period.
- Transfers from the SHA to the TBSRA are scheduled for $342 million in the 2005-06 and $8.3 million in the 2006-07, according to the Department's Toll Bridge Seismic Retrofit Program (TBSRP) Plan of Finance.

2006 FE Assumptions for SHA Transfers:

Non-Article XIX Revenues: AB 2928 (Chapter 91, Statutes of 2000) mandates the transfer of miscellaneous (Non-Article XIX) revenues from the SHA into the PTA under S&H Code Section 183.1. In the 2004 FE, these transfers totaled $239 million over the FE period.

SHA 5. Revenues from Non-Article XIX sources will be forecast based on historical transfers to the SHA, and transferred to the PTA per Section 183.1 of the S&H Code the year after they are received.

Forecast Non-Article XIX Revenues
($ million)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
2004 FE	$46	$46	$50	$49	$49		
2006 FE			$51	$52	$54	$55	$57

Motor Vehicle Account Transfers: Pursuant to Vehicle Code Section 42273, the MVA must transfer to the SHA each month, the balance remaining on the last day of the preceding month that is not needed for immediate use. The 2004 FE assumed the SHA would not receive this transfer in the FE period.

SHA 6. The 2006 FE will assume the SHA will receive these transfers from the MVA in the FE period pursuant to Vehicle Code Section 42273.

Risk Issues:

The transfers from the SHA to the TBSRA are scheduled as $342 million in the 2005-06 and $8.3 million in 2006-07, according to the Department's TBSRP Plan of Finance. The SHA transfer to the TBSRA could change substantially in light of recent events.

- In December 2004, the Administration announced its support for replacing the Self-Anchored Suspension (SAS) span with an extension of the Skyway Bridge to Yerba Buena Island. Currently, no decision has been made.
- In April 2005, the TBSRP was estimated to cost $7.9 billion should the Skyway Extension alternative be awarded by June 2005. The TBSRP was estimated to cost $8.6 billion should the currently suspended (SAS) span contract be re-awarded by September 2005.
- The primary sources of existing funding have been bridge tolls, a State general obligation bond issue (Proposition 192), and the SHA, which funds the STIP.

Regardless of the alternative chosen, the Legislature would need to approve a new funding plan to complete the east span and the remainder of the program, which could require a minimum of $2.8 billion in additional funds. The final plan could impact the funds available for the STIP.

Fund Estimate Item: Loans (Item SHA 7-8)

Since the passage of the TCRA, TIF transportation funding has been delayed or partially suspended in each year to cover General Fund revenue shortfalls in the State budget. Consequently, the SHA and PTA have made loans to the TCRF to fund existing TCRP projects. The SHA has also made loans to other agencies in the past, including a loan to the California Highway Patrol (CHP) which remains outstanding.

Background and Methodology:

- A loan of $35 million was made from the SHA to the CHP, pursuant to the Budget Act of 1997 (Chapter 282, Statutes of 1997). The 2004 FE assumed no repayment in the 2004 FE.
- In 2004-05, the Governor negotiated a compact with five Indian tribes as outlined by AB 687 (Chapter 91, Statutes of 2004). This compact authorizes the use of Tribal Gaming revenues be used to secure a bond issuance. Bond proceeds of $1.214 billion were designated for General Fund loan repayments to transportation funds in 2005-06, including the $457 million ($443 million + $14 million interest) to the SHA and $275 million to the PTA.
- The current outstanding loan balances from the TCRF to the SHA and PTA are $465 million ($443 million + $22 million in interest as of May 2005) and $275 million, respectively. Under AB 438 (Chapter 113, Statutes of 2001), the SHA is to be repaid by June 2007, and the PTA by June 2008.

2006 FE Assumptions for SHA Loans:

SHA 7. The 2006 FE assumes repayment of the $35 million CHP loan plus accrued interest in 2006-07.

SHA 8. **<u>TCRF Loan Repayment Options</u>**:

A. Assume bond proceeds secured by Tribal Gaming revenues are received and outstanding loans are paid in 2005-06. (Existing Law)

B. Assume no Tribal Gaming revenues, and outstanding loans are paid as outlined in AB 438: $465 million to SHA by June 2007 and $275 million to PTA by June 2008. (Existing Law)

C. Assume a lesser amount of bond proceeds secured by Tribal Gaming revenues are received, and outstanding loans are paid in 2005-06.

D. Assume no bonds are issued, but revenue stream from Tribal Gaming compact is used to pay outstanding loans.

E. Assume no Tribal Gaming revenues and no loan repayments during the FE period.

Recommendation:

This issue has been identified as a Tier defining issue. Tier 1 represents a conservative revenue outlook and Tier 2 is based on existing law that realizes all of the revenues. Based on this approach, the Tiers would be defined as follows:

TIER 1: Option E.
TIER 2: Option A.

Risk Issues:

- The 2005-06 May Revise to the Governor's Budget estimates only $1 billion in Tribal Gaming bond proceeds will be realized. This amount represents $214 million less than what was outlined in AB 687. In addition, the $457 million to be repaid to the SHA per AB 687, increased to $465 million, as a result of an additional $8 million in interest accrued as of May 2005. The balance remaining after the General Fund loans to TCRF and SHA are paid will be distributed to the PTA and Local Streets and Roads.
- Issuance of the Tribal Gaming bonds have been delayed by legal challenges and it is not clear when the lawsuits will be resolved.

Fund Estimate Item: Federal Revenues (Items SHA 9-11)

Federal revenue is the largest contributor of SHA resources, accounting for between 40 to 50 percent of total SHA resources. Federal revenues come to the State as reimbursements of eligible expenditures, in the form of OA. OA is the amount of funds the State may obligate in a year on federally qualified projects. Historically, OA has been approximately 90 percent of California's apportionment under the federal Act. California's apportionment level is based on its share of total contributions to the FHTF. OA may also be adjusted each year by Revenue Aligned Budget Authority (adjustments to OA levels based on revised federal receipts) and/or August Redistributions (the redistribution of unused OA balances from other states).

The Act sets the National Apportionment levels for transportation funding from the FHTF which is primarily funded with federal fuel taxes on gasoline and diesel. The last Transportation Act was the Transportation Equity Act for the 21st Century (TEA-21) which authorized funding for the 6-year period 1998-2003. Since the expiration of TEA-21 on September 30, 2003, several extensions have been passed with the last (Surface Transportation Extension Act of 2004, Part V) providing funding through May 2005.

Since there is no guarantee that a transportation bill will be signed in time for the FE, the Department has compiled a list of assumptions for consideration to estimate federal revenues. These assumptions will be updated with the latest congressional actions possible prior to adoption of the FE.

2006 FE Assumptions for Federal Revenues:

Obligation Authority: The House of Representatives has made a proposal, the Transportation Equity Act: A Legacy For Users (TEALU), outlined in House Bill (HR) 3. TEALU proposes $284 billion in program funding for the six-year period 2004-2009, with $221 billion in total OA. This proposal is very similar to the Administration's proposal which also identifies $284 billion in program funding. The Senate has proposed a six-year funding level $295 billion (S. 732), but the bill exceeds the Administration's proposal and may face a veto. These assumptions may be revisited, as more information becomes available.

SHA 9. The California OA level is estimated based on the proposed House Bill HR3 resulting in approximately $15.1 billion in OA for the FE period.

Forecast Federal Obligation Authority
($ million)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
2004 FE	$2,670	$2,730	$2,780	$2,840	$2,890		
2006 FE			$2,846	$2,941	$3,044	$3,117	$3,191

SHA 10. The 2006 FE assumes an August Redistribution of $29 million each year based on the average amount received over the last Transportation Act.

SHA 11. The 2006 FE will assume federal programs currently authorized will continue into the next Act.

Risk Issues:

- The 2004 FE included a $2.7 billion reduction to California OA as a result of the State's lower contributions to the FHTF from a conversion to Ethanol.
- Effective October 2004, HR 5183 implemented a partial fix for Ethanol conversion by reversing a 2.5-cent diversion of federal fuel taxes. HR 4520 repealed the remaining alcohol-based fuel incentives effective January 2005 to restore the State's full contributions to the FHTF.
- Because of the lag time between contributions and receipt of OA, the 2006 FE would include downward adjustments to OA 2005-06 and 2006-07 to reflect the impact of the last two years of reduced State contributions to the FHTF from the conversion. These adjustments have been estimated at $420 million and $98 million, respectively.
- HR 113 has been introduced to "hold harmless" states for lower contributions to the FHTF during state conversions from MTBE to Ethanol. Without this Bill, California OA will be adjusted downward as described above.

Fund Estimate Item: Advanced Project Development Element (APDE) (Item SHA 12)

Beginning with the 2000 STIP, the Department was required under Government Code Section 14529.01 (AB 1012, Chapter 783, Statutes of 1999) to estimate the Advance Project Development Element (APDE) – funds available from the two years following the FE period. Twenty-five percent of these additional resources would be used to produce a steady flow of construction projects for the STIP by building a "shelf" of projects ready for construction.

In the 2004 FE, the Commission adopted the assumption that APDE authority would not be used because of a lack of available funding in the Department's revenue outlook.

SHA 12. Do not include the APDE in the 2006 FE.

State Highway Account

Expenditure Assumptions

Fund Estimate Item: Capital Project Escalation Rates (Items SHA 13-14)

Escalation Rate for Highway Construction Capital: In the 2004 FE, the Commission directed the Department to use the California Highway Construction Cost Index (CHCCI) of 3.0 percent per year for escalating construction capital expenditures.

The CHCCI is based on the actual construction bids submitted to the Department for transportation projects. The Department's 2004 CHCCI increased by 45.5 percent from the 2003 level. Contributing to this increase was a 102 percent increase in the first quarter from the forth quarter of 2003. Historically, the CHCCI has increased at an average annual rate of 3.0 percent over the prior 10 years.

Both the Department and industry agree that the cost of construction materials have increased to a new cost level as a result of strong demand for steel and cement, and the rise in oil prices. However, the 2004 CHCCI increase is substantially higher than the preliminary estimate of 8.3 percent increase for construction materials in 2004 from the Bureau of Labor Statistics' Producer Price Index.

The outlook for material prices appears to be moderating at the new level, as evident by the CHCCI over the last three quarters of 2004 and the first quarter of 2005, but prices are not expected to return to pre-2004 levels.

SHA 13. Highway Construction Capital Escalation Rate Options:

- **A.** Use the CHCCI average escalation rate of 3.0 percent over the previous 10 years for estimating construction capital expenditures. This results in a SHOPP program level of $9.7 billion over the FE period, $1.1 billion over the non-escalated 10-Year SHOPP level.
- **B.** Assume a one-time increase of 8.3 percent to the 2005-06 base year then escalate construction capital expenditures at 3.0 percent over the FE period. This results in a SHOPP program level of $10.2 billion over the FE period, $1.6 billion over the non-escalated 10-Year SHOPP level.
- **C.** Assume a one-time increase of some other amount to the 2005-06 base year then escalate construction capital expenditures at 3.0 percent over the FE period.

Recommendation:

Option B.

Escalation Rate for Office Buildings: The Department used the Department of Finance (DOF) California Construction Cost Index (CCCI) escalation rate for estimating construction of office buildings. The 2004 FE used the CCCI rate of 2.02 percent to escalate construction costs for office buildings. The current DOF CCCI escalation rate for the construction of office buildings is 5.5 percent according to Budget Letter 04-19.

SHA 14. Accept the DOF CCCI escalation rate of 5.5 percent for the construction of office buildings.

Risk Issues:

The construction cost escalation rates will increase the SHOPP expenditures and reduce the cash available for STIP programming capacity. If expenditures are not escalated or are assumed too low, fewer SHOPP projects will be able to be funded if costs rise faster than the escalation rate assumed.

Fund Estimate Item: State Operations (Items SHA 15-18)

State Operations includes administrative and maintenance expenditures in support of staff, consultants, operations expenses, and other items expended to maintain the operation of the transportation system and the maintenance of highways. The Department is required by the S&H Code to use the most recent Budget Act before making adjustments for inflation and inventory.

Background and methodology:

- State Operations, excluding Capital Outlay Support (COS), will be based on the enacted 2005-06 Budget and escalated using the U.S. Department of Commerce, Bureau of Economic Analysis (BEA) implicit price deflator rate of 2.5 percent per year over the FE period.
- Inflation adjustments are based on the BEA implicit price deflator rate, which are reflective of overall state and local cost increases due to inflation. It is not specifically designed to forecast changes in construction costs. The current BEA price deflator for state and local government purchases has been set at 2.5 percent.

2006 FE Assumptions for State Operations Expenditures:

SHA 15. State Operations will include a $50 million efficiency savings in each of the FE years to reflect the Department and Agency goal to increase funds available for capital outlay. Total savings from efficiencies over the FE period will be $250 million.

SHA 16. Professional Engineers in California Government (PECG), otherwise known as collective bargaining Unit 9, negotiated a raise for each year from 2005-06 through 2008-09. The pay raise is estimated to be approximately $44 million in 2005-06 and increase by an additional $44 million each year through 2008-09. This increase will impact indirect support under State Operations as well as direct support costs for Maintenance, Operations, SHOPP, and Local Assistance.

SHA 17. Based on a review of Department expenditures for four fiscal years, the 2006 FE will include a $52 million reservation in 2006-07 and 2007-08 for budget increases associated with traffic congestion, safety, and information technology upgrades (excluding COS, Maintenance, and Operations).

SHA 18. Maintenance and Operations expenditures for Transportation Management Systems (TMS) will include a 2.7 percent increase beginning in 2006-07 and escalated at 2.5 percent thereafter for the costs associated with operating and maintaining the TMS inventory levels over the FE period. (Note: TMS includes, but is not limited to, advanced operational hardware, software, communications systems and infrastructure, for integrated Advanced TMS and Information Systems, and for Electronic Toll Collection Systems.)

Fund Estimate Item: State Highway Operation and Protection Program (SHOPP) (Items SHA 19-20)

The SHOPP Program includes six program categories: Safety, Bridge Rehabilitation, Roadway Rehabilitation, Roadside Rehabilitation, Mobility, and Facilities. Additionally, five programs, which have separate funding, referred to as SHOPP Managed, are Transportation Enhancement Activities, Stormwater, Office Buildings, Railroad Grade Crossings, and Minor (SHOPP) Program.

The Adopted 2004 FE held the SHOPP level to the level approved in the 2002 FE. The 2004 FE SHOPP expenditures were estimated to be $6.5 billion, excluding COS. Support costs were estimated at an additional $1.7 billion – the level needed to carry out the approved plan.

In March 2005, the Department presented the Commission with a proposed 10-Year SHOPP plan with an average annual funding level of $1.73 billion, not including capital outlay support or cost escalation. This funding level was based on the Department's goal of maintaining the highway system at its current level of 11,000 miles of distressed lanes. Construction capital expenditures will be escalated based on the option approved for highway construction capital escalation (SHA 13).

SHA 19. SHOPP Program expenditures will be based on the proposed 2005 10-Year SHOPP plan level of $1.73 billion per year, excluding COS, and escalated at a rate approved by the Commission over the FE period.

A. Minor Program will be held constant at $100 million per year beginning with 2005-06 and include Minor Right of Way costs.

B. Right of Way costs will be based on programmed costs through 2007-08. For later years, it is assumed that Right of Way will be 3.3 percent of the accepted SHOPP capital level.

C. Facilities expenditures for State owned facilities are based on the enacted 2005-06 Budget and the Department's Capital Outlay Five-Year plan.

SHA 20. COS for SHOPP will be based on the approved SHOPP level as currently programmed and future levels as determined by the Commission.

Fund Estimate Item: Local Assistance (Items SHA 21-25)

Federal Funds for Local Assistance: These funds are managed and programmed by regional agencies and include: Highway Bridge Replacement and Rehabilitation Program (HBRR), Hazard Elimination Safety Program (HES), Regional Surface Transportation Program (RSTP), Congestion Mitigation and Air Quality (CMAQ), and old apportionment of Transportation Enhancement Activities (TEA) funds. Federal Local Assistance funds totaled $5 billion in the 2004 FE.

SHA 21. Local Assistance federal project delivery is assumed 100 percent over the FE period. Therefore, federal lump sum allocations will not be cash flowed to reflect 100 percent delivery of the local OA.

SHA 22. A 4-year payback of $200 million in OA by the State to Local Assistance will pay $50 million per year and begin in 2005-06 to reimburse the State's use of unused local OA from prior years.

SHA 23. The State and local percentage split for allocation of federal funds, including August Redistributions, is estimated at 36/64.

State Funds for Local Assistance: State funds for Local Assistance covers Railroad Grade Separation, Railroad Grade Crossing Maintenance, Regional Surface Transportation Program Match and Exchange, and Safe Routes to School Exchange. State Local Assistance funds totaled $1.2 billion in the 2004 FE.

SHA 24. State expenditures assume allocation for Railroad Crossing Protection Maintenance Program at $1 million annually for the FE period consistent with Commission Resolution G04-11.

Retrofit Soundwall Program: The 2004 FE reflected the Administration's decision to fund a specific list of retrofit soundwall projects based on S&H Code Section 215.5. The total estimated expenditures for the remaining retrofit soundwall projects in the 2006 FE are approximately $48 million.

Environmental Enhancement and Mitigation (EEM) Program: The 2004 FE included $50 million for the EEM Program augmented with Federal TEA resources. The 2005-06 Governor's Budget did not provide funding for the EEM Fund.

SHA 25. The 2006 FE will include a $10 million transfer per year to the EEM Fund beginning in 2006-07 as intended under S&H Code Section 164.56.

Fund Estimate Item: Prior STIP Commitments (Items SHA 26-27)

Both the 2002 FE and 2004 FE displayed all programmed projects, both allocated and unallocated, as existing commitments. In the 2006 FE, prior STIP commitments will consist of STIP projects allocated in 2004-05 and prior, STIP COS, and AB 3090 cash reimbursements and GARVEE projects (SHA 28).

SHA 26. STIP capital outlay expenditures reflect a continuation of all projects authorized under the current program and all amendments based on Commission allocation criteria for 2004-05. Unallocated program from 2004-05 has been shifted to 2005-06.

SHA 27. COS expenditures will be based on programmed STIP projects allocated during 2004-05 and prior years, and pre-construction engineering and right of way support for projects programmed for support to begin in 2005-06.

Fund Estimate Item: GARVEE and AB 3090 Projects (Items SHA 28-30)

Grant Anticipation Revenue Vehicles (GARVEE bonds or GARVEEs)
GARVEEs are tax-exempt revenue anticipation notes, bonds or other debt instrument financing mechanisms involving the payment of future federal-aid highway funds to retire debt. GARVEEs can be used to finance right of way and/or construction costs to advance critical transportation projects sooner than through traditional funding mechanisms.

AB 3090 Reimbursement Projects: AB 3090 reimbursement projects are projects covered by Government Code Section 14529.7 where the Commission, Department, region, and local agency may enter into arrangements whereby a local agency pays for the delivery of a STIP project with its own funds earlier than the year in which the project is programmed. Under the cash reimbursement arrangement, the local agency is programmed to receive a direct cash reimbursement for delivery. In April 2003, the Commission established a policy limit for AB 3090 cash reimbursements at $200 million per year statewide and at $50 million per year for any county or local agency.

2006 FE Assumptions for GARVEE and AB 3090 Reimbursement Projects:

SHA 28. Current GARVEE and AB 3090 reimbursement projects are recognized as prior STIP expenditure commitments.

SHA 29. Any future GARVEE or AB 3090 reimbursement projects are within the identified resources for programming.

SHA 30. The FE does not assume any additional capacity from GARVEE bonding or AB 3090 cash arrangements during the FE period.

PUBLIC TRANSPORTATION ACCOUNT (PTA)

The PTA is a trust fund for transportation planning and mass transportation purposes. Revenue from state sales tax on gasoline and diesel fuel is distributed by formula to the State's General Fund, local agencies and to the PTA. Funds are also transferred into the account from the SHA and the Aeronautics Account to pay for the Department's highway and airport planning activities that are not payable from sales tax revenue in the PTA. Additionally, the PTA receives a transfer of miscellaneous SHA revenues pursuant to S&H Code Section 183.1.

PUBLIC TRANSPORTATION ACCOUNT (PTA) ASSUMPTIONS

Fund Estimate Item: PTA Revenues (Items PTA 1-12)

Beginning Cash Balance:

PTA 1. The beginning PTA cash balance for the 2006 FE will be calculated on an accrual basis and will be based on the year end balance as of June 30, 2005.

Minimum Operating Cash: The minimum operating cash level was assumed to be $52 million in the 2004 FE based on analysis of the greatest monthly draw on cash from receipts minus disbursements.

PTA 2. Based on an analysis of the monthly volatility from receipts less expenditures in the PTA, adopt the minimum operating cash balance of $65 million which should cover 95 percent of the volatility.

Proposition 111 Gasoline and Diesel Fuel Sales Tax: The DOF estimates gasoline and diesel fuel sales tax revenues. Revenues for future years are based on the average annual growth rate of past transfers. In the 2004 FE, gasoline and diesel fuel sales tax revenues were estimated to increase at annual rates of 1.25 percent on gasoline and 4.8 percent on diesel, resulting in $1.2 billion in revenues during the 2004 FE period.

PTA 3. Gasoline and diesel fuel sales tax revenues will be based on DOF estimates with future years reflecting the average annual growth rates of 1.7 percent on gasoline and 3.4 percent on diesel fuel.

Forecast Gasoline and Diesel Fuel Sales Tax
($ million)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
2004 FE	$217	$224	$233	$242	$251		
2006 FE			$261	$260	$261	$265	$272

PTA "Spillover" Revenue:
Under Revenue and Taxation Code Section 7102 (a)(1), revenues derived from 4.75 percent of all taxable sales less 5.0 percent of all taxable sales except gasoline are to be transferred quarterly to the PTA. The DOF forecasts taxable sales for the state and produces the forecast for the PTA Spillover. The 2004-05 Budget Act diverted spillover funds to the General Fund to partially repay a General Fund loan to the TCRF. As a result, the PTA has only received two quarterly transfers of spillover revenues over the last three years for a total of $23 million, with the last occurring in April 2004. The 2005-06 Governor's Budget also proposes the elimination of $216 million in PTA spillover revenue in 2005-06.

PTA 4. PTA "Spillover" Revenue Options:

A. Assume spillover revenues are transferred in 2006-07 and transfers continue for remainder of the FE period. (Existing Law)
B. Assume no spillover revenue transfers will occur during the FE period.

Recommendation:

This issue has been identified as a Tier defining issue. Tier 1 represents a conservative revenue outlook and Tier 2 is based on existing law that realizes all of the revenues. Based on this approach the Tiers would be defined as follows:

TIER 1: Option B.
TIER 2: Option A.

Non-Article XIX Transfers: AB 2928 (Chapter 91, Statutes of 2000) mandates the transfer of miscellaneous (Non-Article XIX) revenues from the SHA into the PTA under S&H Code Section 183.1. Transfers in the 2004 FE were based on previous year SHA revenues and totaled $239 million during the FE period.

PTA 5. The SHA transfer of miscellaneous revenues to the PTA under S&H Code Section 183.1 will be based on previous year SHA revenues and transferred to the PTA the following fiscal year.

PTA Planning Transfers: S&H Code Section 194 requires the transfer of SHA funds into the PTA to fund planning activities attributable to highways and mass transit guideways. The transfer was determined by formula, based on a breakdown of PTA State Operations expenditures. These transfers totaled $112 million during the 2004 FE.

PTA 6. The SHA transfer to the PTA for planning under S&H Code 194 will be determined by formula based on a breakdown of PTA State Operations expenditures and escalated at the BEA price deflator rate of 2.5 percent.

Federal Trust Funds:
Federal Trust Funds are matching resources for support functions of eligible mass transit and planning expenditures within State Operations.

PTA 7. Federal Trust Funds will be based on the eligible mass transit and planning expenditures within State Operations of the enacted budget and escalated at the BEA price deflator rate of 2.5 percent.

<u>Transfer from the Aeronautics Account</u>:

PTA 8. Transfer from the Aeronautics Account, per Public Utilities Code Section 21682.5, is $30,000 per fiscal year.

<u>PTA Transfer to the TBSRP</u>:

PTA 9. The PTA share of the TBSRP costs per the Department's TBSRP Plan of Finance will be assumed to be $30 million in 2005-06 and $40 million in 2006-07.

<u>TCRF Loan Repayment to the PTA:</u> The 2001-02 and 2002-03 Budget Acts authorized loans totaling $275 million from the PTA to the TCRF, which must be repaid to the PTA by 2007-08. The Governor negotiated compacts, ratified by AB 687, where Tribal Gaming revenues would be used to secure a bond issuance of $1.214 billion for General Fund loan repayments to transportation funds in 2005-06, including $275 million to the PTA.

PTA 10. <u>TCRF Loan Repayment of $275 million to the PTA is discussed in assumption item SHA 8.</u>

<u>TIF Transfers to the PTA:</u> General Fund transfers of the gasoline sales tax to the TIF were partially suspended in 2003-04 and completely suspended 2004-05. As a result, the PTA has not received any of its shares of the revenue from TIF. The 2005-06 Governor's Budget proposes to suspend the TIF transfer in 2005-06. Effective July 1, 2003, Article XIXB to the California Constitution makes the transfer to the TIF permanent, with 20 percent allocated to the PTA beginning 2008-09.

PTA 11. <u>TIF Transfers to the PTA are discussed in assumption item TIF 1.</u>

<u>TDIF Repayments to the PTA:</u> TIF transfer to the PTA for 2003-04 and 2004-05 are to be paid to the PTA from the TDIF in 2007-08 and 2008-09. These repayments are approximately $96 million (2003-04) and $113 million (2004-05).

PTA 12. <u>TDIF Repayments to the PTA are discussed in assumption item TDIF 1.</u>

Fund Estimate Item: PTA Expenditures (Items PTA 13-16)

Intercity Rail Operations:

PTA 13. Intercity rail is part of the State Operations expenditures in the PTA. Expenditures are based on the 2004 State Rail Plan:

- **A.** Intercity rail and bus operations base expenditures for existing services is estimated at $73.1 million for each year of the FE. This assumes that increased costs would be offset by higher revenue from increases in ridership gains and fares.
- **B.** Expenditures for increased services on existing routes are estimated at $57.5 million over the 2006 FE period. Expenditures for new routes are estimated at $107.6 million over the FE period.
- **C.** The Department's estimated need for heavy equipment maintenance and overhaul over the FE period is $62.8 million.

Local Assistance:

PTA 14. Bay Area Ferry operations expenditures will be based on the enacted 2005-06 Budget. Future expenditures will be escalated by 1.01 percent based on historical expenditures.

State Operations:

PTA 15. State Operations will be based on the enacted 2005-06 Budget and escalated at 2.5 percent per year.

Capital Outlay:

In 2001-02, $91 million was allocated for capital outlay for intercity rail track improvements in the 2001-02 Budget Act (2660-301-0046). Through 2004-05, $25 million has been liquidated with a remaining balance of $66 million.

PTA 16. Capital outlay expenditures for the remaining balance of intercity rail track improvements will be scheduled over the three years from 2005-06 through 2007-08 in the 2006 FE.

TRANSPORTATION INVESTMENT FUND (TIF)

The TIF was created with passage of the TCRA (AB 2928, Chapter 91, Statutes of 2000; SB 1662, and Chapter 656, Statutes of 2000), and revised through the Transportation Refinancing Plan, AB 438 (Chapter 113, Statutes of 2001). The source of funds for the TIF is the state motor vehicle fuel sales tax on gasoline. The purpose of this fund is to commit major resources to designated transportation projects that relieve traffic congestion, to the STIP, to the repair and maintenance of local streets and roads, and to the PTA.

Fund Estimate Item: Transportation Investment Fund Assumption (Item TIF 1)

Background and methodology:

- The TIF was created to receive General Fund transfers of revenue from gasoline sales tax and make quarterly transfers of $169.5 million to the TCRF through 2008-09. The remaining balance was to be distributed to the PTA, local government, and STIP by formula.
- The Transportation Refinancing Plan, AB 438, deferred the General Fund transfer of sales tax revenues from motor vehicle fuel to the TIF for two years. Transfers were rescheduled to begin in 2003-04 and end in 2007-08. AB 438 also authorized a loan of $350 million from the SHA to the TCRF to fund the TCRP local road subvention program, with the SHA to be "repaid" by increased TIF funding for the STIP in 2006-07 and 2007-08.
- In March 2002, Proposition 42 made the transfer of the sales tax on gasoline to the TIF permanent, and requires gasoline sales tax revenue transferred to the TIF beginning in 2008-09 be used for State and local transportation purposes with the revenues allocated as follows:
  - 20 percent to the PTA.
  - 40 percent to transportation improvement projects funded in the STIP.
  - 40 percent to local streets and roads improvements; with half of the amount (20 percent) allocated to counties and half to cities.
- Proposition 42 also allows the Legislature, upon a two-thirds vote, to enact a statute suspending in whole or in part the transfer to TIF for a fiscal year.
- A trailer bill to the 2003-04 Budget Act provided a partial transfer of $289 million from the General Fund to the TIF in 2003-04.
- SB 1099 (Chapter 210, Statutes of 2004) suspended the General Fund transfer to TIF in 2004-05.
- The DOF forecasts taxable sales for the state and produces the forecast for the TIF transfers.

2006 FE Assumptions for TIF Transfers:

TIF 1. <u>TIF Transfer Options:</u>

- **A.** Assume a TIF transfer in 2006-07 and transfers continue for remainder of the FE period. (Existing Law)
- **B.** Assume no TIF transfers will occur during the FE period.
- **C.** Assume TIF transfers will begin in 2007-08 and continue for remainder of the FE period (Governor's budget control proposal).

Note: The outcome of the 2005-06 TIF transfer will be determined by the enacted 2005-06 Budget.

<u>Recommendation:</u>

This issue has been identified as a Tier defining issue. Tier 1 represents a conservative revenue outlook and Tier 2 is based on existing law that realizes all of the revenues. Based on this approach the Tiers would be defined as follows:

TIER 1: Option B.
TIER 2: Option A.

<u>Risk Issues:</u>

- Should the imbalance between General Fund revenues and expenditures continue into 2006-07, it is very likely that some portion, or all of the TIF revenue will be suspended in the 2006-07 Budget.
- The Administration announced a budget control proposal that will prohibit the suspension of Proposition 42 funding beginning in 2007-08 (ACA 4X; Keene, R-Chico). This proposal would require a constitutional amendment.

TRANSPORTATION DEFERRED INVESTMENT FUND (TDIF)

The TDIF was created by the Legislature through AB 1751 to facilitate the repayment of TIF funds not transferred from the General Fund in 2003-04. SB 1098 also specified that the General Fund repay the TIF transfer suspended in 2004-05 to the TDIF.

Fund Estimate Item: Transportation Deferred Investment Fund Assumption (Item TDIF 1)

Background and methodology:

- AB 1751 added Revenue and Taxation Code Section 7105 that requires a General Fund transfer of $856 million to the TDIF by June 30, 2009. Revenues to the TDIF will be apportioned in the same manner and amounts that would have been made if the 2003-04 TIF transfer had not been partially suspended.
- The General Fund must also transfer interest calculated at the Pooled Money Investment Account (PMIA) rate into the TDIF and allocated to each program based on the amount that each program did not receive in 2003-04.
- SB 1099 suspended the General Fund transfer to TIF in 2004-05, and SB 1098 stated repayment of $1.243 billion would be made to TDIF with interest by June 30, 2008.

2006 FE Assumptions for TDIF:

TDIF 1. **TDIF Repayment Options:**

A. Assume 2003-04 and 2004-05 TIF suspensions are repaid to the TDIF in June 2009 and June 2008 as prescribed by AB 1751 and SB 1098, respectively. (Existing Law.)
B. Assume all TIF suspensions are repaid to the TDIF over a 15-year period. This option would require an additional assumption on how the payments would be distributed. (Governor's Budget.)
C. Assume no TDIF repayments during the FE period.
D. Assume the revenue stream from the 15-year payback is fire-walled in a November special election, and revenue bonds are issued to advance payments to the TDIF. (Governor's budget control proposal.)

Recommendation:

This issue has been identified as a Tier defining issue. Tier 1 represents a conservative revenue outlook and Tier 2 is based on existing law that realizes all of the revenues. Based on this approach the Tiers would be defined as follows:

TIER 1: Option C.
TIER 2: Option A.

ACRONYMS

A&D	Acquisition and Development
AB	Assembly Bill
AIP	Airport Improvement Program
CCCI	California Construction Cost Index
CHCCI	California Highway Construction Cost Index
CHP	California Highway Patrol
Commission	California Transportation Commission
COS	Capital Outlay Support
Department	Department of Transportation
DOF	Department of Finance
FE	Fund Estimate
FHTF	Federal Highway Trust Fund
FHWA	Federal Highway Administration
GARVEE	Grant Anticipation Revenue Vehicles
HBRR	Highway Bridge Replacement and Rehabilitation
HUTA	Highway Users Tax Account
MVA	Motor Vehicle Account
OA	Obligation Authority
PMIA	Pool Money Investment Account
PTA	Public Transportation Account
PUC	Public Utilities Code
R&T Code	Revenue and Taxation Code
RABA	Revenue Aligned Budget Authority
RTIP	Regional Transportation Improvement Program
RTPA	Regional Transportation Planning Agencies
S&H Code	Streets and Highway Code
SAS	Self-Anchored Suspension
SB	Senate Bill
SCO	State Controller's Office
SHA	State Highway Account
SHOPP	State Highway Operation Protection Program
SMIF	Surplus Money Investment Fund
STA	State Transit Assistance
STIP	State Transportation Improvement Program
TBSRA	Toll Bridge Seismic Retrofit Account
TBSRP	Toll Bridge Seismic Retrofit Program
TCRA	Traffic Congestion Relief Act of 2000
TCRF	Traffic Congestion Relief Fund
TCRP	Traffic Congestion Relief Program
TDIF	Transportation Deferred Investment Fund
TE	Transportation Enhancements
TIF	Transportation Investment Fund
TMS	Traffic Management Systems

INDEX OF ASSUMPTIONS BY FUND

State Highway Account:

SHA 1. The actual adjusted cash balance as of June 30, 2005 will be the beginning balance of the 2006 FE.

SHA 2. Based on a cash analysis of the monthly SHA receipts less expenditures from July 2003 through June 2004, a minimum level of operating cash of $340 million would be sufficient to cover 95 percent of the monthly volatility in the SHA.

SHA 3 Fuel excise tax revenues are estimated to grow at an average annual rate of 2.2 percent for the five year FE period.

SHA 4. Weight Fee revenues in the 2006 FE are estimated to increase at approximately 2.5 percent annually over the FE period. This is consistent with the weight fee collection history prior to Senate Bill (SB) 2084 and SB 1055, and the growth pattern observed after the full fix was implemented.

SHA 5. Revenues from Non-Article XIX sources will be forecast based on historical transfers to the SHA, and transferred to the PTA per Section 183.1 of the S&H Code the year after they are received.

SHA 6. The 2006 FE will assume the SHA will receive these transfers from the MVA in the FE period pursuant to Vehicle Code Section 42273.

SHA 7. The 2006 FE assumes repayment of the $35 million CHP loan plus accrued interest in 2006-07.

<u>SHA 8. TCRF Loan Repayment Options</u>:
TIER 1: Option E. Assume no Tribal Gaming revenues and no loan repayments during the FE period.
TIER 2: Option A. Assume bond proceeds secured by Tribal Gaming revenues are received and outstanding loans are paid in 2005-06. (Existing Law)

SHA 9. The California OA level is estimated based on the proposed House Bill HR3 resulting in approximately $15.1 billion in OA for the FE period.

SHA 10. The 2006 FE assumes an August Redistribution of $29 million each year based on the average amount received over the last Transportation Act.

SHA 11. The 2006 FE will assume federal programs currently authorized will continue into the next Act.

SHA 12. Do not include the APDE in the 2006 FE.

<u>SHA 13. Highway Construction Capital Escalation Rate:</u>
Option B Assume a one-time increase of 8.3 percent to the 2005-06 base year then escalate construction capital expenditures at 3.0 percent over the FE period. This results in a SHOPP program level of $10.2 billion over the FE period, $1.6 billion over the non-escalated 10-Year SHOPP level.

SHA 14. Accept the DOF CCCI escalation rate of 5.5 percent for the construction of office buildings.

SHA 15. State Operations will include a $50 million efficiency savings in each of the FE years to reflect the Department and Agency goal to increase funds available for capital outlay. Total savings from efficiencies over the FE period will be $250 million.

SHA 16. Professional Engineers in California Government (PECG), otherwise known as collective bargaining Unit 9, negotiated a raise for each year from 2005-06 through 2008-09. The pay raise is estimated to be approximately $44 million in 2005-06 and increase by an additional $44 million each year through 2008-09. This increase will impact indirect support under State Operations as well as direct support costs for Maintenance, Operations, SHOPP, and Local Assistance.

SHA 17. Based on a review of Department expenditures for four fiscal years, the 2006 FE will include a $52 million reservation in 2006-07 and 2007-08 for budget increases associated with traffic congestion, safety, and information technology upgrades (excluding COS, Maintenance, and Operations).

SHA 18. Maintenance and Operations expenditures for Transportation Management Systems (TMS) will include a 2.7 percent increase beginning in 2006-07 and escalated at 2.5 percent thereafter for the costs associated with operating and maintaining the TMS inventory levels over the FE period.

SHA 19. SHOPP Program expenditures will be based on the proposed 2005 10-Year SHOPP plan level of $1.73 billion per year, excluding COS, and escalated at a rate approved by the Commission over the FE period.

A. Minor Program will be held constant at $100 million per year beginning with 2005-06 and include Minor Right of Way costs.

B. Right of Way costs will be based on programmed costs through 2007-08. For later years, it is assumed that Right of Way will be 3.3 percent of the accepted SHOPP capital level.

C. Facilities expenditures for State owned facilities are based on the enacted 2005-06 Budget and the Department's Capital Outlay Five-Year plan.

SHA 20. COS for SHOPP will be based on the approved SHOPP level as currently programmed and future levels as determined by the Commission.

SHA 21. Local Assistance federal project delivery is assumed 100 percent over the FE period. Therefore, federal lump sum allocations will not be cash flowed to reflect 100 percent delivery of the local OA.

SHA 22. A 4-year payback of $200 million in OA by the State to Local Assistance will pay $50 million per year and begin in 2005-06 to reimburse the State's use of unused local OA from prior years.

SHA 23. The State and local percentage split for allocation of federal funds, including August Redistributions, is estimated at 36/64.

SHA 24. State expenditures assume allocation for Railroad Crossing Protection Maintenance Program at $1 million annually for the FE period consistent with Commission Resolution G04-11.

SHA 25. The 2006 FE will include a $10 million transfer per year to the EEM Fund beginning in 2006-07 as intended under S&H Code Section 164.56.

SHA 26. STIP capital outlay expenditures reflect a continuation of all projects authorized under the current program and all amendments based on Commission allocation criteria for 2004-05. Unallocated program from 2004-05 has been shifted to 2005-06.

SHA 27. COS expenditures will be based on programmed STIP projects allocated during 2004-05 and prior years, and pre-construction engineering and right of way support for projects programmed for support to begin in 2005-06.

SHA 28. Current GARVEE and AB 3090 reimbursement projects are recognized as prior STIP expenditure commitments.

SHA 29. Any future GARVEE or AB 3090 reimbursement projects are within the identified resources for programming.

SHA 30. The FE does not assume any additional capacity from GARVEE bonding or AB 3090 cash arrangements during the FE period.

Public Transportation Account

PTA 1. The beginning PTA cash balance for the 2006 FE will be calculated on an accrual basis and will be based on the year end balance as of June 30, 2005.

PTA 2. Based on an analysis of the monthly volatility from receipts less expenditures in the PTA, adopt the minimum operating cash balance of $65 million which should cover 95 percent of the volatility.

PTA 3. Gasoline and diesel fuel sales tax revenues will be based on DOF estimates with future years reflecting the average annual growth rates of 1.7 percent on gasoline and 3.4 percent on diesel fuel.

PTA 4. PTA "Spillover" Revenue Options:
TIER 1: Option B. Assume no spillover revenue transfers will occur during the FE period.
TIER 2: Option A. Assume spillover revenues are transferred in 2006-07 and transfers continue for remainder of the FE period. (Existing Law)

PTA 5. The SHA transfer of miscellaneous revenues to the PTA under S&H Code Section 183.1 will be based on previous year SHA revenues and transferred to the PTA the following fiscal year.

PTA 6. The SHA transfer to the PTA for planning under S&H Code 194 will be determined by formula based on a breakdown of PTA State Operations expenditures and escalated at the BEA price deflator rate of 2.5 percent.

PTA 7. Federal Trust Funds will be based on the eligible mass transit and planning expenditures within State Operations of the enacted budget and escalated at the BEA price deflator rate of 2.5 percent.

PTA 8. Transfer from the Aeronautics Account, per Public Utilities Code Section 21682.5, is $30,000 per fiscal year.

PTA 9. The PTA share of the TBSRP costs per the Department's TBSRP Plan of Finance will be assumed to be $30 million in 2005-06 and $40 million in 2006-07.

PTA 10. TCRF Loan Repayment of $275 million to the PTA is discussed in assumption item SHA 8.

PTA 11. TIF Transfers to the PTA are discussed in assumption item TIF 1.

PTA 12. TDIF Repayments to the PTA are discussed in assumption item TDIF 1.

PTA 13. Intercity rail is part of the State Operations expenditures in the PTA. Expenditures are based on the 2004 State Rail Plan:

A. Intercity rail and bus operations base expenditures for existing services is estimated at $73.1 million for each year of the FE. This assumes that increased costs would be offset by higher revenue from increases in ridership gains and fares.

B. Expenditures for increased services on existing routes are estimated at $57.5 million over the 2006 FE period. Expenditures for new routes are estimated at $107.6 million over the FE period.

C. The Department's estimated need for heavy equipment maintenance and overhaul over the FE period is $62.8 million.

PTA 14. Bay Area Ferry operations expenditures will be based on the enacted 2005-06 Budget. Future expenditures will be escalated by 1.01 percent based on historical expenditures.

PTA 15. State Operations will be based on the enacted 2005-06 Budget and escalated at 2.5 percent per year.

PTA 16. Capital outlay expenditures for the remaining balance of intercity rail track improvements will be scheduled over the three years from 2005-06 through 2007-08 in the 2006 FE.

Transportation Investment Fund (TIF)

TIF 1. TIF Transfer Options:

TIER 1: Option B. Assume no TIF transfers will occur during the FE period.
TIER 2: Option A. Assume a TIF transfer in 2006-07 and transfers continue for remainder of the FE period. (Existing Law)

Transportation Deferred Investment Fund (TDIF)

TDIF 1. TDIF Repayment Options:

TIER 1: Option C. Assume no TDIF repayments during the FE period.
TIER 2: Option A. Assume 2003-04 and 2004-05 TIF suspensions are repaid to the TDIF in June 2009 and June 2008 as prescribed by AB 1751 and SB 1098, respectively. (Existing Law.)